DOW THEORY LETTERS INC.

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36 Letters per Year – $95 Annually

Registered with the Securities Exchange Commission

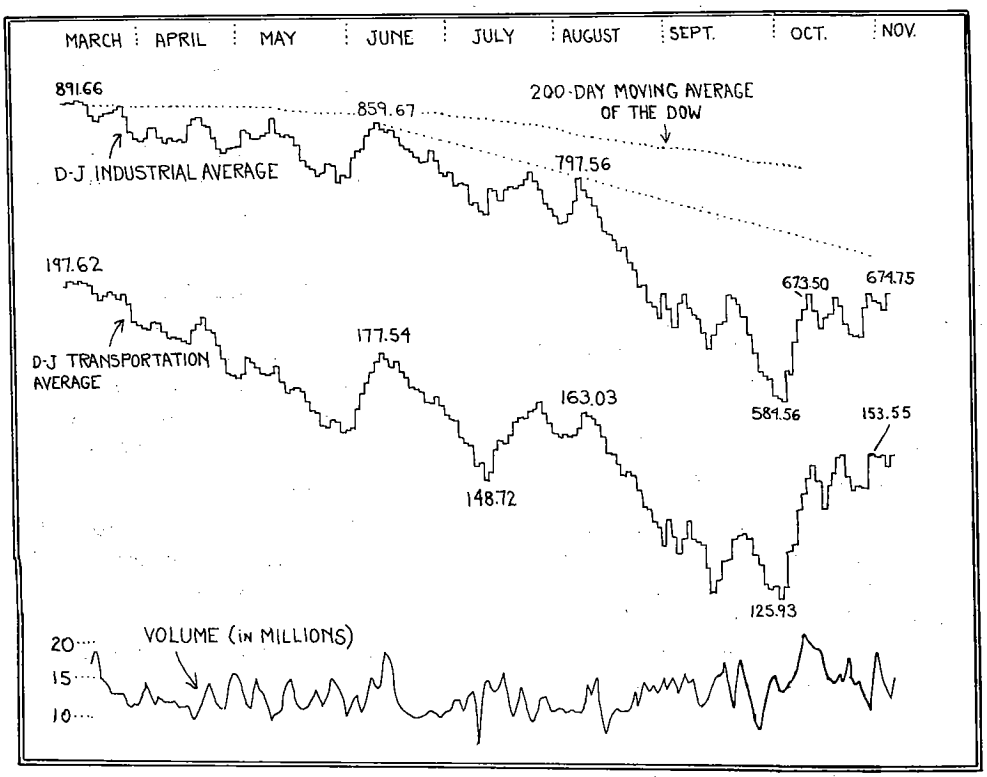
November 8, 1974 Letter 614

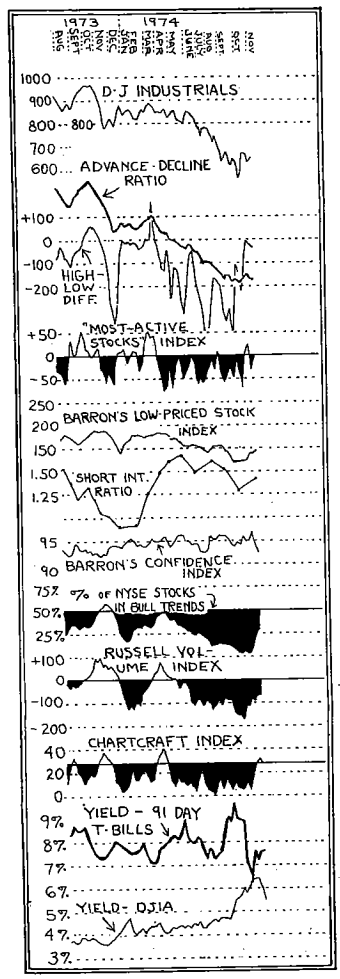
Oct. 25, DJIA 636.19; PTI 202; A-D ratio -33.13
Nov. 1, DJIA 665.28, PTI 204; A-D ratio -32.58

JMK on INFLATION: "Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose." John Maynard Keynes.

THE MARKET: I don't think I have ever seen a pattern which has been as widely advertised as the "head-and-shoulders bottom" now appearing in the D-J Industrial Average. Every advisory service and newspaper is hastening to inform us that the Dow "should push above the 680 resistance level," then work generally higher into the mid-700's or beyond. It may very well work out that way, but I have enough of the skeptic in me to want to see the market do the talking from here on. If predictions by the "experts" could propel the Dow, we would have been over 700 weeks ago.

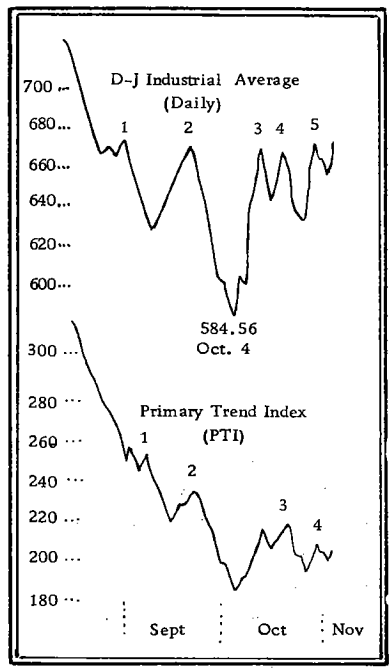
On an unemotional reading of the Averages, the Industrials recorded a peak of 673.50 on October 14, then formed a series of slightly lower peaks during ensuing weeks. Against this, the Transports established a series of rising peaks with the highest point (as of this writing) being the 153.55 peak of November 1. On November 4, Industrials bettered their 673.50 high, thereby getting in gear with Transports. This represents a "breakout" from the whole head-and-shoulder bottom pattern, and the market should now be ready to show what it can do on the upside. The breakout came on election day, but the election outcome was obvious. The news of the massive Democratic sweep hit the headlines next day. We now have a Republican President who is saying and doing little that anyone can decipher. We have a Democratic Congress committed to "solving our economic problems" by spending, making jobs, and taxing or confiscating profits and wealth. It should be an interesting show.





I want to warn readers again that primary bear markets just don't act the way bull markets do. For instance, in a bull market, a dull (low volume) spot, particularly if it follows a rally, usually identifies a buying area. In a bear market the opposite is true, and dull periods in bear markets are generally good places to avoid (sharp traders often put out a line of shorts in a dull area following a rally in a bear market). Furthermore, many of the widely followed technical indicators will mysteriously fail to perform during a primary bear market. This can be particularly true of the so-called measurements of market psychology, such as the short interest ratios, the odd-lot shorts or the contrary opinions, particularly if those opinions are contrary to the bears. Why is this? The reason is that in a bear market many of the (bull market) rules are

reversed, and just as in a bull market the optimists can be correct for long periods of time, so in a bear market the doubters (including the short sellers) can be right for months on end.



Personally, I have preferred in the bear market to use the indices which measure the character of the market rather than market psychology. I feel that these are generally less understood but have tended to give superior readings over the past few years. In the last Letter (page 6), I referred (rather ominously) to the Primary Trend Index (PTI) which is my own tool based on a mixture of eight critical averages and indices. I am publishing an updated chart of the PTI, and here we see that against five consecutive assaults by the Dow on the 680 area, the PTI has formed a series of four descending peaks. I consider this to be the prime "technical problem" for the market over the near term. While it is possible that the problem will be resolved by a sudden burst of strength taking the Dow and the PTI to new recovery highs, the more likely solution has usually proved to be a washout with both the Dow and the PTI getting in gear on the downside.

It should be noted that the D-J Utility Average and the D-J 40-Bond Average have pushed well above their bear market lows of 57.93 and 64.13 respectively. This should be considered a technical plus in the overall situation. However, the liquidity problem has not yet burst upon the nation, and when it does it will be crucial to watch the bear market lows for the Bonds and Utilities. The ability (or failure) of those two indices to hold above the lows may be our best indication of the depth and power of the bear market's third phase.

Question: Could the October 3 low be the start of a new bull market? Answer: I don't think so. A primary bear market entails a full correction of both the previous period of stock advance and speculation (i.e., the preceding bull market) and the previous period of boom in the economy. This correction necessarily includes liquidation. So far, we have had massive liquidation in the stock market. We have had no liquidation in the economy. I have never heard of a primary bull market rising out of a foundation of inflated prices, inflated inventory plus a banking situation which borders on the illiquid. Great bull markets are born following periods of genuine liquidation in the economy. We haven't seen anything like that — yet.

Question: Couldn't the Fed open the floodgates and get this market roaring on the upside again? Answer: The Fed is now moving to make money easier again. Borrowed reserves (on the part of the member banks) have turned decidedly less restrictive, and the money stock is moving higher. But the Fed has a gigantic problem on its hands at this time. It would probably require a 20% annual boost in the money supply just to keep this nation standing still at this point in the debt game. That kind of expansion in the money supply would lead to even worse inflation. On the other hand, if the Fed continues its stringent monetary stance, bankruptcies are going to be the order of the day. There is no ready answer at this time; the point of no return has been passed. For this reason I expect the Fed to follow the usual politically-oriented stop-go policy, stopping when inflation becomes too virulent, going when business starts falling apart.

It is possible that the Fed will ease up enough now and through the end of the year to get the market moving again (or at least that would be their hope). This would take a bit of the pressure off the Fed and the Administration. Already, Mr. Ford is being told that his "number one problem" in the nation, inflation, now has a little brother. That little brother is recession, and the little fellow is growing mighty fast.

Question: How will all this effect the worker, the consumer and the economy? Answer: The worker will find himself in a schizophrenic situation just as the Fed does. The worker will be screaming for wage increases (to cover his declining purchasing power), and at the same time unemployment will be heading up, jobs will be harder to get. The consumer will be thoroughly confused. He will pull in his horns, he will try to cut his debt, pay off his loans and economize. The standard of living across the nation is going to be substantially lowered, and the consumer already knows this. He had also heard his Government tell him to economize by buying less, and he is about to hear his Government ask him to help beat the recession by not buying "too much less." The economy will be subject to very kind of crosscurrent, but the underlying conditions for business are bearish and highly unstable.

Question: What is the stock market's reaction to all this going to be? Answer: The market's function is to discount. The market, I feel, has already discounted the situation on the basis of this recession being a "normal" recession or even a severe one of the 1957-58 variety. What I think the stock market is now trying to appraise is whether the Government will chance hyper-inflation or whether it will try to hold the line and risk a credit collapse. If hyper-inflation is the choice, the market will probably rise in a much more substantial upward correction than we have seen so far. Nevertheless, such a correction will still take place within the context of a primary bear market (the upside target of the Dow in this case could be around 800). If a hold-the-line policy is the choice, I would think that the current upside correction would top in the 680 range.

In either case, the strategy which I advocate for my subscribers remains the same. Bear market rallies are dangerous, deceptive, and seldom big money-makers. I would leave them for the professionals, the funds and the traders.

I believe that the real money in the market is made by being correct on the fundamental or primary direction of the market. This entails taking a fully invested position near the beginning of a primary bull market and riding that position through to somewhere near the end. In a bear market, the fundamental position is one of protection and safety, and this means being out of common stocks and in cash or the safest form of fixed income.

From the 1968 market peak, the very broad Value Line Average (188.64 at the high) dropped an amazing 74% to the recent October 3 low of 49.75. Thus, the investor who held cash or the equivalent can currently buy stocks at an extraordinary discount. In terms of common stocks, the cash holder has seen his purchasing power advance very substantially. In terms of stocks, those who have held gold coins or gold shares have seen their purchasing power sky-rocket. Ultimately, when stocks become a fundamental buy again (at the inception of the next primary bull market) I will advise that we take our cash and purchase a diversified list of outstanding common stocks. In the meantime, catching corrections may be exciting and at times even rewarding, but it is not the procedure that I follow or advocate. If you make three trading mistakes and lose say 15% or 20% on each, you have lost half your capital. Your capital is your personal economic "tool." Without the tools, a workman can't make a nickel.

Question: What is the big picture, as you see it at this time? Answer: I see the bear market's third (psychological) phase coming up on Wall Street and in the economy. This will be the next major event. For this reason, I want to include this excerpt from Robert Rhea's report, written on March 16, 1938 (the great Dow Theorist of the 1930's wrote this just prior to that bear market's third phase): "In the opinion of this writer, we are now emerging from the second phase and going into the third and final portion of the bear market. This may last for a month, or many months. It is in the third phase of a bear cycle when the people sell their good stocks, held against a rainy day, because it is raining (watch the blue chips): corporations sell investment securities to obtain money for payrolls, taxes and other expenses; receiverships increase, and business paralysis develops because labor has lost its job and cannot buy; and rich men's purchasing power vanishes with curtailed dividends and because of defaulted bonds. These, and other things, cause stocks to sell below intrinsic worth in the third phase of a bear market."

The current recession is gathering steam. It should be remembered that history repeats in a broad sense, but no two bull markets or bear markets are exactly alike. I have been saying all along that this situation is leading to either hyper-inflation (as the Government attempts to "float us" out of a gathering depression via a sea of paper money) or simply economic slump and depression directly. The fact is that inventories are now far too high, sales on big-ticket items are backing up, unemployment is rising, competition is increasing, and there is no shortage of anything except certain foodstuffs, namely, the grains.

All of this the market obviously knows, and that is why it is down at these "low" levels. But the great danger lies in an international credit collapse, perhaps set off by the failure of a large bank or even a large nation. Such an event could touch off a panic situation which could shake or shatter the economic structure of the Free World. Many nations, including Italy and Britain, are now literally being held up by loans. This cannot continue. Something has to give, if only the creditors' willingness to roll over the loans. The banking system of the Free World is totally inter-connected, and if one nation topples the shock waves will carry throughout the world.

Ultimately, this inflation is going to give way to accelerating deflation. Many of my cohorts believe that the various governments can keep the balloon rising for a few months or a year or two longer, before the piper is paid. I am not so optimistic, because I believe that the kind of hyper-inflation needed to keep the Free World simply standing still (forget the growth) will not be tolerated by today's citizens. I think we would see riots, looting, wholesale toppling of governments, if we try to carry on an even greater destruction of the purchasing power of the various currencies. It's a sad and a pathetic situation, brought on by ignorance and gullibility on the part of the citizens and stupidity and cowardice on the part of the politicians.

Question: Russell, don't tell me what, tell me when. Answer: I can't provide pinpoint timing, but I will guess that the big trouble will hit sometime in 1975. It is well to remember that the secnario I have put forth will result in a gigantic panic for cash first. This extreme need for cash will run interest rates through the roof again. Next, there will be a gathering rush for real money (gold), but this (perhaps tremendous) move in gold will probably not come until after the credit crisis. And that's about as far ahead as my crystal ball can see.

Question: What about the Arabs, can't they help us get out of this mess? Answer: They could, but they won't. The Arabs have one main worry; how to protect themselves against collapsing paper assets (they are now accumulating dollars at a breathtaking rate (see clip). Nobody in polite society has mentioned it, but the best protection the Arabs could have would be deflation in the West, and a rising trend in the dollar's purchasing power. Can you hear one sheik saying to the other, "We rode the dollar all the way down while those SOB's inflated their heads off. Now it's our turn to ride the dollar up while they let the air out of their big currency balloon!" And a third sheik says, "But won't they try to take us over if things get too bad for them?" And a fourth sheik answers, "That's the chance we take, but at least it's a chance. If the dollar collapses, our horrendous losses are

Oil Cartel Masses Monetary Reserves

Controls $38 Billion---19% of World Total, Compared to 7% a Year Ago

BY HOBART ROWAN
The Washington Post

WASHINGTON—Monetary reserves owned by the oil-producing cartel rose by at least $25 billion in the last year to a total of more than $38 billion, or 19% of the world total, compared to only 7% at the end of last September, according to data released over the weekend by the International Monetary Fund.

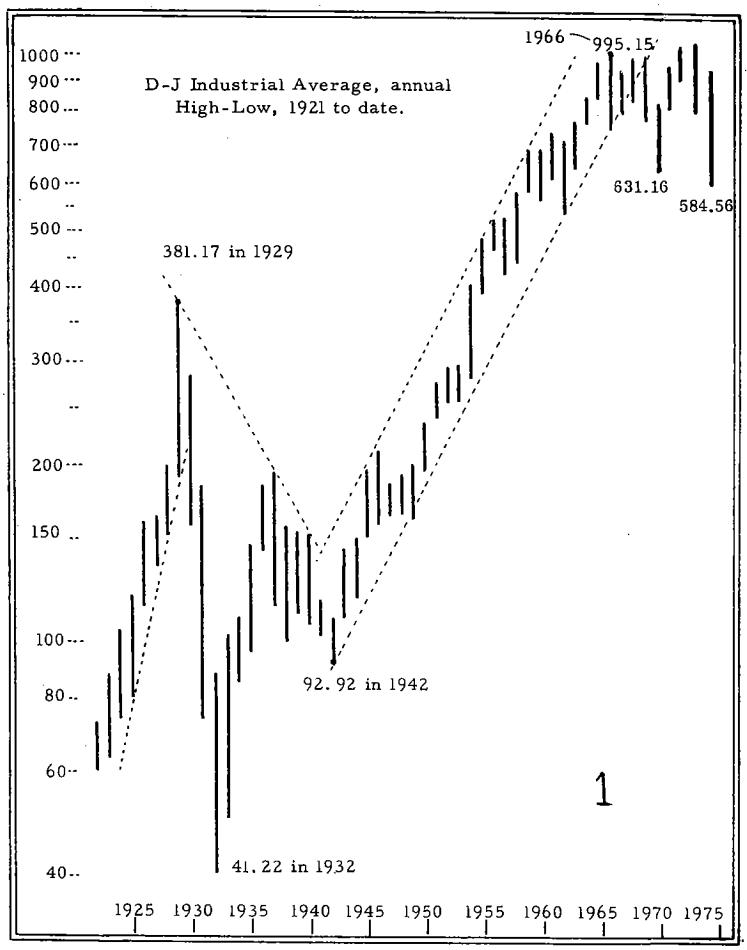
Thus, the transfer of resources from the Western consuming countries to the cartel, which many experts had predicted would undermine the world's financial system, is already well under way.

Saudi Arabia, the world's largest oil producer, alone had accumulated $11.5 billion in reserves at the end of September, moving up into fourth place behind only West Germany, the United States and Japan.

A year ago, the Saudis had only $4 billion in reserves—made up of currency, gold and other assets— ranking 13th. It appears quite likely that within the next several months, Saudi Arabia will pass both the United States and Japan, and rank second only to West Germany, which now has $32.5 billion in reserve.

a sure thing, so we'll go for the chance. Besides, we have the Russians behind us. The Russians believe their dream is coming true, a withholding of oil from the West. It's the rise of the Arab Nations, gentlemen, and a world depression may just be our friend (with it, we can buy up half the world at deflated prices)."

CHARTS, THE DOW, THOUGHTS: Chart number 1 shown on this page presents a picture of the D-J Industrial Average (annual high-low range) from 1922 to 1974. The chart, which I have drawn to semi-logarithmic (often called ratio) scale, is actually a picture of rallies and declines in terms of percentages. This percentage method, in my opinion, is the most useful way of showing price movements in the stock market. A rise from 100 to 200 represents a 100% advance in price. By the same token, a rise from 350 to 700 or a rise from 600 to 1200 represents a 100% price rise. All of these rises will take up the exact same vertical distance on a ratio-scaled chart.

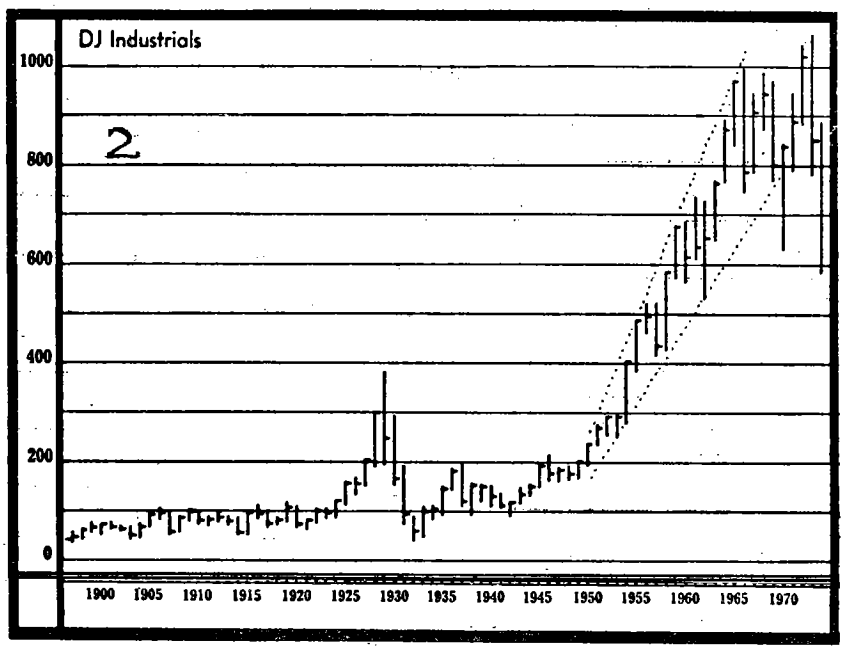


Whether you are aware of it or not, you are always dealing in percentages in the stock market. Thus, the man who buys a $3 stock and sees it rise 3 points to 6 has captured a paper profit of 100%. But the man who buys GM at 35 and sees it advance 3 points to 38 has a paper profit of only 8.6%. The pointage change is both cases is the same, but the percentage of increase and the profitability of the trades is vastly different. Thus, we are operating for percentages of gain in the stock market, not points.

A second most interesting and little understood fact about ratio charts is that every trendline you draw on one of these charts is exponential. This means that any trendline will ultimately stretch towards infinity. In other words, take the vertical distance from 100 to 200 on a ratio chart. This is the same distance as 500 to 1000, or 10,000 to 20,000 or 5 million to 10 million, and thus a rising trendline will eventually deal with increases in the millions, billions, and finally infinity. Since no price movement in the market will hold to infinity, it can safely be said that all market trendlines will, in time, be broken.

Now on to the chart: Note on chart #1 that I have drawn a descending trendline which connects the 1929, the 1937 and 1940 peaks. In 1942 the Dow recorded the famous 92.92 bottom of World War II. From there, the Dow rose in one of the most remarkable long-term patterns in market history. This rise is bordered by a channel of two rising trendlines. These trendlines contain all the annual Dow ranges from the year 1942 to 1966.

In 1966 I wrote that I believed the great Post-War primary bull market was over. The bull market top, as the chart so graphically shows, was a long time in forming. In 1967 the Dow dipped just below the lower channel trendline. In 1968 the Dow again ruptured the lower trendline, this time by a slightly wider margin. Then, in 1969, the Dow broke cleanly out of the lower trendline. It was here that the market began to crumble. The smash was completed in 1970 as the Dow, for the first time, failed even to touch the lower trendline of the channel.



We should understand that ascending trendlines drawn on a ratio-scaled chart indicate a steady rate (in percentages) of rise. Any time such a trendline is broken, it indicates that the rate of rise (often called a "growth rate") is over. Thus, it can be said that in 1969 the Dow reversed an upward growth rate which had held in force ever since 1942, a period of 27 years! As a rule, the longer

a trendline holds, the greater the significance of the ultimate reversal. I therefore took it as of the utmost significance when the Dow fell out of the lower channel trendline. Veteran subscribers undoubtedly remember my many warnings at the time.

Since the breaking of the lower trendline in 1969, the bear has taken an increasingly powerful grip on the stock market and the economy. Despite a level of monetary expansion and inflation which would have been considered catastrophic a decade ago, the market has failed to respond in a bullish way. The general list of shares, in fact, has undergone its worst decline since the crash of 1929-32.

The chart shows that the Dow dropped to 631.16 in 1970. It then rallied to a record high of 1051.70 in January, 1973. From there the Dow plunged to a 14-year low of 584.56 in 1974. At the 1974 low, the Dow had corrected 48.6% of all the gains from 1942 to 1973. That loss does not appear as much of a correction on the ratio chart. But the verdict of history is not yet in. Before this primary bear market is over, before the final third phase liquidation is completed, 584.56 may appear as just another step on the way down. There is no way of telling at this time.

In contrast with chart 1, chart 2 is an arithmetically-scaled representation showing the annual high-low range of the Dow from 1897 to 1974 (courtesy of the Financial Weekly). On an arithmetic chart, all point changes take up the exact same distance. A move from 5 to 10 takes the same vertical distance as a move from 500 to 510. Note here that whereas the upward growth trend on the ratio chart was broken in 1969, the arithmetic chart does not show the breaking of the trend until 1970. Note also that the Dow during the years 1971, 1972 and 1973 has climbed back above the lower trendline. The upward trend on chart 2 seems to have been reestablished following 1970. No such bullish implications appear on chart 1.

But the arithmetic chart does definitely have its uses. It gives us another kind of picture. It shows as movement, action. Following the 1966 peak, chart 1 presents a widening fan-like pattern of higher annual highs and lower lows. This is symptomatic of a market "out of control," a market being whipped about by successive waves of optimism and pessimism (and of course, more inflation and less inflation). Many subscribers will recognize the above description as fitting the classic concept of the "broadening top." Such erratic, writhing price movements are generally considered bearish (in contrast with the controlled, steady, logical movements associated with accumulation and strong bull markets).

One comment may be of interest. In 1973 the Dow rose to a record high. This was followed by 1974, a year in which the annual high and low ranges (at least so far) have both been below the 1973 high and low ranges. The last time this occurred was 1929. At that time the Dow rose to a record high, to be followed by 1930, a year in which the high and low ranges were both below the 1929 high-low ranges. Following 1930 the Dow declined for two more years. Let's hope that this isn't the formula for 1975 and 1976. Both the 1929-30 and 1973-74 sequences show up clearly on chart 2.

STOCK COMMENT: Back in Letter 582 (Nov. 30, 1973) I discussed General Motors, the world's largest manufacturing entity. At that time I said that the pattern being formed by GM was remarkably similar to one which had appeared during the 1929-32 period. If the comparison continued, I added, GM could be expected to head down towards the low 30's in price, a target that seemed almost absurd at the time that I wrote it. I included this page 6 chart (monthly) of GM, together with the insert showing GM during the 1929 crash. I drew a little black dot on the lower GM trendline, a dot indicating my projected downside objective for the stock.

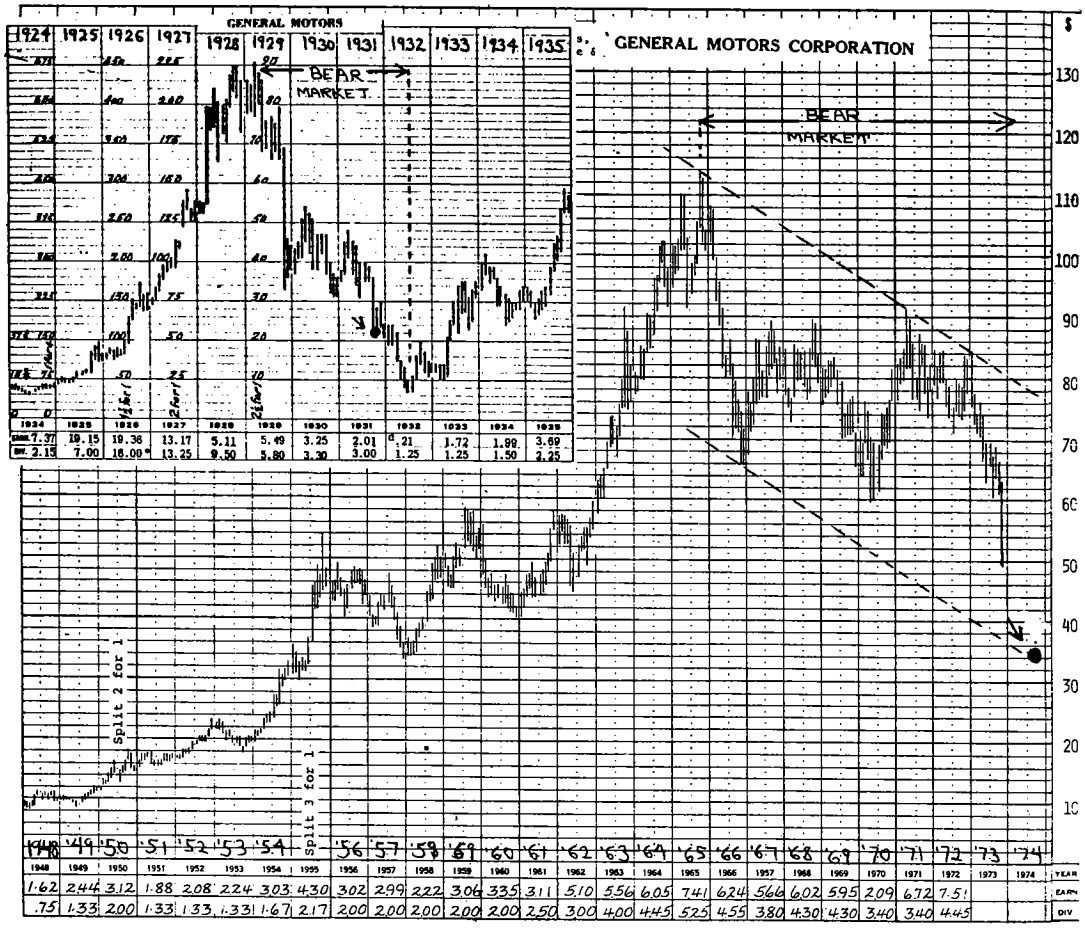
Over the past month GM has moved down to the low 30's, thereby hitting the target. A few days ago (see new clip) GM slashed its year-end payout. I feel that the second phase (bear market) decline for GM has now ended, and that (comparatively) the stock is where it was at the end of 1931 (see dots on the chart). During the final third phase of the bear market, I expect GM to go even lower, perhaps into the low 20's (I simply do not know). But we could get a good rally first in GM if this upside correction in the general market carries further.

It is well to remember that one out of every seven jobs in the nation is connected in some way, directely or indirectly, with the auto industry. Thus, the collapse of GM and the implications of that collapse for the economy cannot be minimized. I would expect 1975 to represent a most difficult year for the car-makers with large layoffs, shrinking profits or even large deficits. The auto industry in general is geared up to produce gas-burners with the great majority of US cars getting less than 20 miles per gallon of gas. My prediction is that in the future the auto industry will have to produce vehicles in the 40 miles-per-gallon class in order to survive. The days of the gas-guzzler are numbered. (Note: the Datsun 210 gets 39 miles per gallon on the road, and I believe this is the car that is pointing the way for the auto industry).

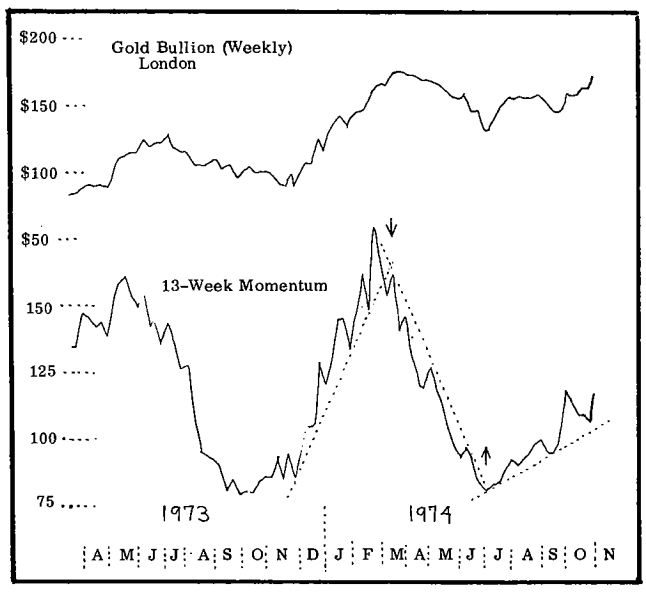
GOLD: The dollar is turning weak now, and my feeling is that if this continues, other Western nations will move either to devalue against the dollar or put up trade restrictions against dollar goods. With a worldwide slump in force, the last thing Europe (or Japan) needs is a cheapening dollar and lower-priced American goods (in other words, tougher export competition).

Gold "knows" this, and my gold momentum chart evidently knew this in July (see Letter 612, page 5). I am updating this chart (page 6), and note that the rising trend of gold momentum is holding quite well. As of this writing, gold has hit $178, a fractional percentage from the $179.50 record high. If it betters that mark, the yellow metal might try for the $220 point & figure projection

mentioned in the last report. If you have not taken your position of 25% to 40% in gold-oriented items (as I have been advocating), I would not move now. It would probably be better to sit this one out as the whole situation is getting far too erratic. The good buy-points have passed (in my opinion) for gold shares and coins, and I feel that we are nearing the "whip-shaw" or "hair-pulling" area for many things including gold, commodities, stocks, interest rates, and the economy.



I ask myself, "Will the political boobs opt for hyper-inflation in their effort to battle the gathering slump? Will Federal Reserve Chairman Burns go along with the big spenders, and will he push for a 20% or 25% bulge in the money supply?" Frankly, I find it hard to believe that he will, but I'll admit that every time I thought our "leaders" would hold the line, lo and behold, they chose inflation and wide-open money spigots. Why won't they do it again? I'll be a hopeless optimist and say that I don't think Mr. Burns is ready to destroy the economy and that he'll try to walk a fine line between inflation and deflation. But it won't work. We're either going to inflate or run headlong into the big money squeeze. This economy is far too illiquid to exist on just "a little inflation" at this point in time.

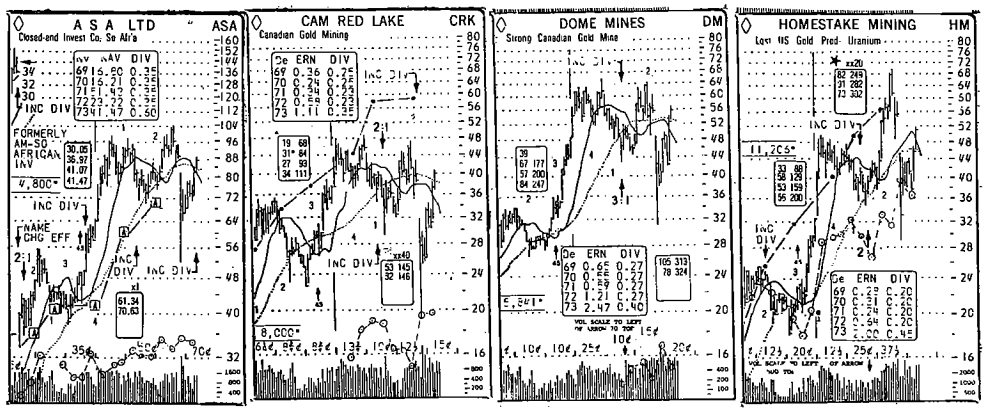


So I feel that either way we are headed for trouble, and it is going to be one of the trickiest and most difficult periods any of us has ever tried to get through. I've said it before, but I'll say it again: this bear market is out to smash us all, and I don't care how we play the game. It's a matter of survival, and survival is a matter of percentages (or what portion of our assets we can manage to hang on to). Forget the idea of coming out of this bear market with a big profit; you and I are running up the down escalator, and our job is to try to stay even.

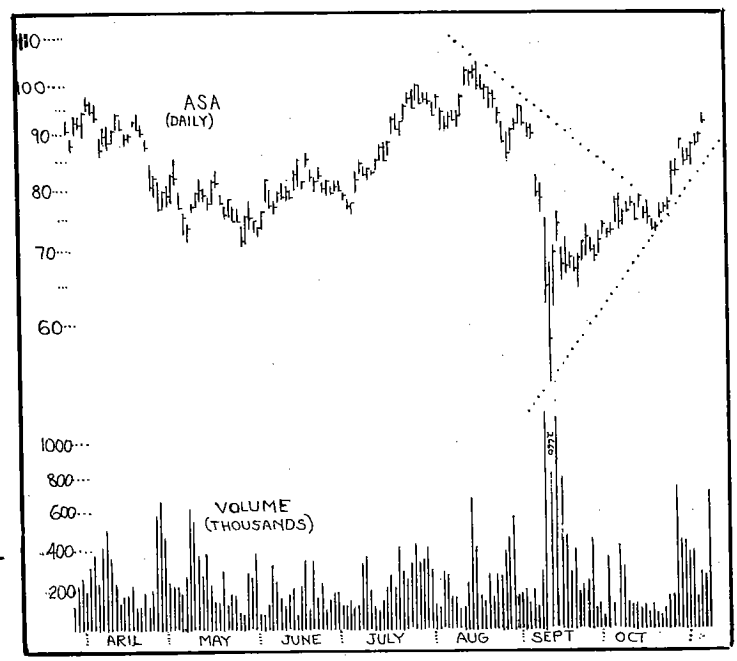
People keep writing me about buying German marks or Swiss francs, putting their gold coins in Swiss safe-deposit vaults, moving to the Cayman Islands, etc. What can I say? None of these ideas intrigue me. I'm not ready to run for the hills yet, and I don't know if the other guy's hills are any better than my hills. If things get rough enough, the US Government could blow all the brilliant escape plans into a cocked hat. They could give you a week to bring all your foreign assets back or have them expropriated. They could do anything in an emergency, and don't forget it. Your Government can take your gold away, your pistol away, your right to privacy away, and it'll be done in the name of protecting you. Remind the guy in the post office or at the county hospital or at the garbage disposal unit that he's working for you, and see what answer you get! Ah well, they can't confiscate the climate, and that's why I live in Southern California and pay the taxes.

Back to gold. The gold shares are presenting a most extraordinary picture. I have shown four weekly charts (page 7) courtesy of Harry Lankford (Quote Digest, PO Box 213, Wichita, KS 67201). What we see here is the panic, the reversal and the upward surge

taking the stocks straight through the 200-day moving average (dotted line), and the 10-week moving average (solid line). Now, following a panic, there is usually an automatic recovery of about 50%, following which the stock will sink slowly down to test the lows again. Not so the golds, these stocks consolidated, then pushed up and up and up (while running out the shorts), and they are now in range of the old highs in many cases. What does it all portend?



My own feeling is that the gold shares could move into one whopping, persistent, extended sort of "blow-off" from here. But I don't think that's going to happen. I would guess that we will see some more consolidation and pattern-forming prior to new highs. I am showing my own daily (ratio-scaled) chart of ASA, one of the bellwethers of the gold market. Here we see ASA moving up, filling the gap in the 83-85 area, then pushing (Nov. 5) right into the supposed resistance in the 90 area, the level at which the stock first cracked technically on the downside — in all, an amazing technical performance so far.



A pullback by ASA to the 86-87 level would just touch the rising trendline shown on the chart, and holding above that trendline would be strongly bullish. Normally (I'm almost afraid of using the word normal in this market) I would expect a pullback by ASA to its 200-day moving average (now around 84), then a try for the old high. A push straight through the old highs by ASA would leave me wishing that the move had slowed down. Remember, in the stock market, the wilder the party, the sooner the police arrive to break up the fun. Therefore, I'd prefer a slowdown in the golds. But as I've written so many times before, they don't arrange Wall Street for Richard Russell's convenience.

GOLD NOTES: According to a recent article in the London Financial Times, an average price of $170 for gold would bring the mines' earning up to the levels of the March quarter, when the average price received was around $165 (the Times is talking about the S. African shares, of course). Another interesting comment comes from Adrian Louw, Chairman of Gold Fields of South Africa, Ltd. He states that by year-end, "It's probable that the black below-ground labor force at many mines will fall to about 65% of former requirements." This is because of mechanization and technical advances, and it is obviously a bullish factor in the S. African gold picture.

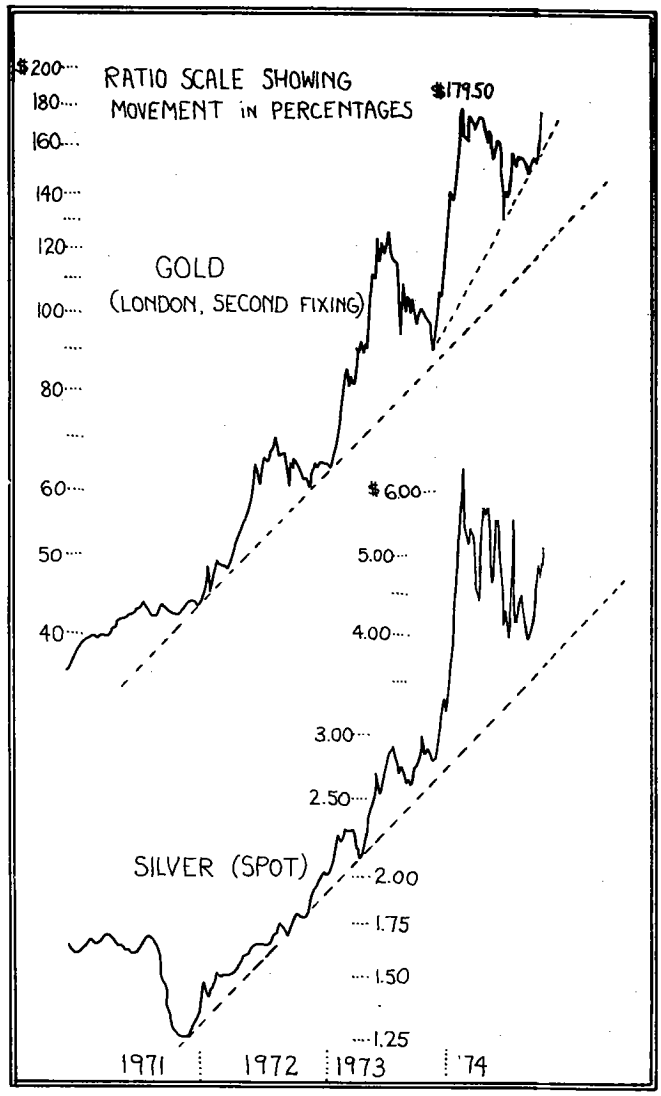
Today the NYSE (Mr. Needham) announced that it wants to establish a secondary market in gold. Everybody is getting into the gold act, and the usual sophisticated reaction might be, "There are too many cooks making the soup. They're preparing for the kill, the big distribution of gold, the big rip-off." Sure, I'll admit that those thoughts have crossed my mind dozens of times. Then there is the fact that the gold shares are all under their old highs with bullion now at the old high. Do the gold shares know something, are they telling us something?

Frankly, there is no way of telling. A few thoughts occur to me. You can practically take a contrary opinion on the "obvious response." Maybe this gold move is actually going to fool all the sophisticates. When the public gets the bit in its mouth, you can forget sophistication and contrary opinion and everything else. I know and you know that at some point gold will have moved too far. And I know that if a huge liquidity squeeze hits and interest rates go skyward, gold could tumble. I also know that the US Government would like gold banished to Siberia, and they are likely to do anything to discourage people from having a chance to turn in paper for gold.

I believe we can ride this gold trend, on a momentum basis, until gold momentum breaks. When that happens, it will be time to be careful, very careful. A few of my most knowledgeable friends feel that there will be another interest rate squeeze (which will

hit gold) prior to the final major move, the big "explosion" which should mark the all-out world effort to bail the various nations out of depression. I might add that Tom Holt and Bill Tehan are rather of this mind, and I would say I am too. I should also add that I will report as soon as the 13-week momentum chart of gold bullion reverses to the downside. So far, all is clear.

I'm including below my ratio chart of gold and silver bullion, and it is clear that the bull trends are very much intact. The fact that gold is now climbing up a secondary (and even steeper) rising trend is an added explosive factor. The chart gives me the feeling that gold is dragging silver up with it. Note that silver is not at its old high but gold is. Most of the other non-precious metals such as lead, zinc and copper are well down from their highs of the past few years, and this is a matter of supply and demand and the gathering recession. I feel that silver is in the middle, not as good as gold, but "somewhat" of a monetary metal, enough of one to be dragged up by gold.



On this same page I am showing my gold bullion/gold share ratio, a chart which is self-explanatory. Since the peak on the ratio recorded eight weeks ago (in favor of bullion), the ratio has moved down in favor of the shares. Barron's Gold Average is used in computing this ratio, and the Barron's Average is very heavily weighted by ASA.

LATE NOTES: (Written Wednesday, Nov. 6, 2PM NY time): Dow up over 8 points, Transports up over 3, big volume and the market seems to be taking the breakout above the 680 seriously. People still ask me how stocks can go up in the face of news clips such as the accompanying one on the GM dividend. I ask them how Foreman could get up after Ali knocked him out. There's always a rebound. Foreman lost the fight, but he did get off the canvas before the ten-count. I have stated repeatedly that every uncorrected primary movement (up or down) is entitled to a one-third to two-thirds correction. That's what we're in now. When this correction is over, I believe Wall Street will start down into the third and final phase of the bear market. That will be the time that will try mens' souls.

GM CHOPS YEAREND DIVIDEND BY 64%

NEW YORK (AP)—General Motors Corp. directors declared Monday a yearend dividend of 85 cents a share on common stock, 64% less than the auto giant paid out at the end of 1973.

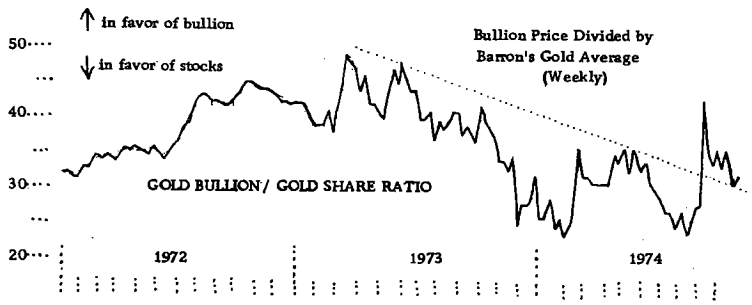
The dividend is payable Dec. 10 to shareholders of record Nov. 14.

General Motors, with this latest payment, has distributed $3.40 a share in common stock dividends this year, down 35% from the $5.25 a share in 1973.

In the 12 months ended Sept. 30, GM earned only $3.31 a share. In the full calendar year 1973, earnings totaled $8.24 a share.

The directors at Monday's dividend meeting also declared regular quarterly dividends of $1.25 a share on GM's $5 series preferred, and 93.75 cents a share on $3.75 series preferred, both payable Feb. 1 to shareholders of record Jan. 6.

Also at the board meeting, Robert C. Lund was named vice president and general manager of General Motors' Chevrolet Motor Division, GM Chairman Richard Gerstenberg announced.



I want to mention that my friend John McFalls is presenting the big 1975 International Monetary Symposium in Miami Beach on January 5, 6, 7. It should be a most interesting gathering. If you go, you'll hear John himself (John is a great MC and he also knows golds backwards and forwards), you'll hear top thinkers like John Exter, Dr. Norbert Einstein (yes, he is related to Albert), Mike West, Jim McKeever, Jim Blanchard, Prof. Henry Holzer, Dr. Henry Hazlitt, Congressman Philip Crane, and many more. Write to Economic Research Analysts, Inc., 3050 Biscayne Blvd., Miami, FL 33137. John tells me that if you don't come back with a suntan and an education, you'll get your money back in gold (I'm only kidding, John).

LAST NOTE OF THE DAY: Nov. 6th, after the close. The 13 point rally in the Dow turned into a 4 point decline. And another try for 680 failed. Has the head-and-shoulders bottom pattern provided the fake-out of the year? It will take more time to tell, but today's was a dramatic reversal, and on over 20 million shares.